



National News

Election Aftermath: It was not about Economics

By Mark Knold

The Republican Party expanded its political control in the just completed election. Not only did President Bush win re-election, but the Republican agenda was also advanced in both the House and the Senate. The voters made a decision, but economics didn't appear to be a primary factor.

Historical precedent suggests that the current economic climate should have favored the Democratic Party. This article is not trying to argue that one party's economic policies are good or bad. Instead, it is taking a snapshot of the current

economic environment, each party's historical response to that environment, and then concluding there should have been a predictive conclusion. But the results went in the other direction.

First, the current state of the U.S. economy is just starting to gain strength after a three-year lethargy. But what was known economically prior to the election should have hurt the incumbent. Although the gap is closing, there were fewer U.S. jobs on Election Day 2004 than Election Day 2000. Although presidents can't control job numbers, they do get blamed for them. The weak economic rebound from the 2001 Recession should have played against the President and his party.

Secondly, over the past two decades, middle-class and working-class incomes have barely budged, while a larger gap has opened between the top 20 percent of the income spectrum and the remainder. The President's current tax reductions are viewed as disproportionately favoring the wealthy. In addition, corporate America is currently predominating in the councils of economic power (see large profit margins and weak wage growth). Average Americans with a fresh taste of recession generally don't take kindly to a perception of this shifting of the country's wealth.



to produce a recession. If an economic downturn doesn't emerge by this winter, then forget the recession scenario.

Instead, shift to the second — a surging economy. Current economic indicators along with stimulative actions by the Federal Reserve (the Fed) have the economy humming right now — and no one believes it! Not even the Fed. The late 1990's psychology of a booming economy that-never-ends has now been replaced by an economy-that-will-never-start psychology. The stock market, the business community, and the Fed have not yet awakened to the economy's signals. Record corporate profits do not justify the current stagnant stock market. The economy wants to run but we just don't believe it.

Thirdly, the media plays heavily on negative economic news, particularly economic villains. The current villain is global off-shoring. It has only been portrayed as a negative, and the politicians get the blame. Again, this is news that should have hurt the President.

this writing, it's a tossup. But the answer should develop quickly.

The first is high oil prices. They have the distinct possibility of pushing the U.S. into another recession. All oil price spikes have been followed by a recession. So far this hasn't happened, but the critical time period is this winter, especially if it is a harsh winter. Rising home-heating costs coupled with rising gas-pump prices could shake the consumer enough

If we get past the high oil prices, we will wake up to the robust economy and believe it in 2005.

Having said all this, the Republicans won the election by a wider-than-expected margin. Clearly it was something other than economics that influenced the voters at the polls.

Pushing the political picture out of the way though, what can we expect from the market in 2005? After all, the market is the deciding economic factor. There are two big dynamics that could push the economy strongly in either direction. And as of

Current economic factors that should have played against President Bush

- A three-year employment downturn
- Fewer jobs now than when President Bush entered office
- A large federal budget deficit (viewed by many as bad)
- Minimal wage growth over the past three years
- Rapidly spiraling healthcare costs
- A widening of the income gap favoring the wealthy
- Corporations hoarding the benefits of increased productivity (high profits)
- Media's high-profile negative reporting of global off-shoring